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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarter Ended December 31, 1991

Commission file number 0-6355

COMNET Corporation

Incorporated in Delaware

IRS EI No. 52-0852578

6404 Ivy Lane, Suite 500, Greenbelt, MD 20770

Telephone Number: (301) 220-5400

Indicate by check mark whether the registrant (1) has filed reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO _____

Class	Shares Outstanding Effective December 31, 1991
Common Stock, $.50 par value	3,035,418
Series C Preferred Stock	2,875

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CONSOLIDATED BALANCE SHEETS
(in thousands)

	December 31, 1991 (Unaudited)	March 31, 1991 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 453	$ 1,325
Trade and installment accounts receivable, less allowance of $2,739and $1,569	15,341	11,918
Notes receivable, net	626	223
Other current assets	2,358	1,733
Total current assets	18,778	15,199
Installment accounts receivable, long term	1,743	4,254
Notes receivable, long-term, net	843	980
Property and equipment, net	2,380	1,963
Computer software, net of accumulated amortization of $4,264 and $3,108	8,089	6,291
Other assets	71	134
Total assets	$31,904	$28,821
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short term borrowing	$ 1,655	$ ---
Accounts payable	1,115	1,488
Current portion of long-term debt	852	753
Accrued expenses	4,290	5,325
Total current liabilities	7,912	7,566
Long-term debt, net of current portion	1,046	1,450
Deferred income taxes	1,778	990
Minority interest	3,714	3,186
Total liabilities	14,450	13,192
Commitments		
Stockholders' equity:		
Preferred stock, Series C, $1.60 cumulative, $0.25 par value, 200,000 shares authorized, 2,875 and 5,425 shares outstanding	1	1
Capital contributed in excess of par value	45	75
Common stock, $0.50 par value, 10,000,000 shares authorized, 3,035,418 and 2,947,226 shares issued	1,517	1,472
Capital contributed in excess of par value	12,042	11,418
Retained earnings	4,608	3,472
	18,213	16,388
Less treasury stock at cost, 203,060 shares	(759)	(759)
Total stockholders' equity	17,454	15,629
Total liabilities and stockholders' equity	$31,904	$28,821

See notes to consolidated financial statements.

COMNET CORPORATION
CONSOLIDATED STATEMENTS OF EARNINGS
(in thousands, except per share data)
Unaudited

	For the Three-Month Period Ended Dec. 31,		For the Nine-Month Period Ended Dec. 31,	
	1991 (FY92)	1990 (FY91)	1991 (FY92)	1990 (FY91)
Revenue:				
Software licenses and related	$5,361	$4,767	$15,671	$12,140
Service and other revenue	2,624	2,746	7,287	7,234
Total revenue	7,985	7,513	22,958	19,374
Costs and expenses:				
Research, development and support	2,841	2,309	8,162	6,186
Sales and marketing	2,577	2,810	7,890	6,976
General and administrative	1,050	1,125	2,945	3,136
Provision for doubtful accounts	606	402	1,424	1,049
Total costs and expenses	7,074	6,646	20,421	17,347
Operating earnings	911	867	2,537	2,027
Non-operating income (expense), net	(97)	(42)	(194)	192
Earnings before provision for income taxes	814	825	2,343	2,219
Provision for income taxes	234	290	682	710
Minority interest in net earnings of consolidated subsidiary	188	174	475	414
Net earnings	$ 39	$ 361	$ 1,186	$ 1,095
Earnings per Share of Common Stock:				
Primary	$ 0.11	$ 0.13	$ 0.34	$ 0.39
Fully diluted	$ 0.10	$ 0.13	$ 0.32	$ 0.38
Weighted average number of common and common equivalent shares outstanding				
Primary	3,842	2,803	3,539	2,840
Fully diluted	3,883	2,835	3,673	2,890

See notes to consolidated financial statements.

COMNET CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
Unaudited

	For the Nine-Month Period Ended Dec. 31	
	1991 (FY92)	1990 (FY91)
Cash flows from operating activities:		
Earnings from continuing operations$	$1,186	$1,095
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities:		
Amortization expense	1,215	686
Depreciation expense	559	277
Provision for doubtful accounts receivable	1,424	1,046
Gain on sale and issuance of subsidiary stock	(17)	(13)
Gain on sale of an asset	---	(4)
Deferred income taxes	730	913
Minority interest in earnings of consolidated subsidiary	475	414
Changes in assets and liabilities:		
(Increase) in accounts receivable	(2,602)	(2,447)
(Increase) in other current assets	(567)	(319)
(Increase) decrease in other assets	63	(211)
(Decrease) increase in accounts payable	(374)	282
(Decrease) increase in accrued expenses	(1,036)	738
Net cash provided by operating activities	1,055	2,457
Cash flows from investing activities:		
Purchase and development of computer software	(2,871)	(2,521)
Purchase of equipment and improvements	(665)	(443)
Proceeds from sale of asset	---	6
Net cash used in investing activities	(3,536)	(2,958)
Cash flows from financing activities:		
Proceeds from exercise of stock options	639	211
Proceeds from exercise of subsidiary stock options	72	---
Proceeds from short term borrowings	1,655	1,000
Principal payments of long-term debt	(755)	(194)
Dividends paid	(3)	(4)
Net cash provided by financing activities	1,608	1,013
Net (decrease) increase in cash and cash equivalents	(873)	512
Cash and cash equivalents at beginning of period	1,325	521
Cash and cash equivalents at end of period	$ 453	$1,033
Supplemental disclosures of cash flow information:		
Cash paid during the period for :		
Interest	$ 227	$ 184
Income taxes	432	288
Non-cash investing and financing activities:		
Conversion of preferred stock to common stock	$ 30	$ ---
Conversion of long-term debt to stock	---	1,250
Capital lease obligations incurred	450	---

See notes to consolidated financial statements.

COMNET Corporation
Notes to Consolidated Financial Statements

1. The financial statements for the nine months ended December 31, 1991 and 1990 are unaudited. In the opinion of management, all adjustments (consisting of recurring accruals) considered necessary for a fair presentation have been included. Limited footnote information is presented, in accordance with quarterly reporting requirements. The information contained in the audited financial statements and the notes thereto for the year ended March 31, 1991 should be referred to in connection with the unaudited interim financial information. The results of operations for the three and nine months ended December 31, 1991 are not necessarily indicative of the results for the year ended March 31, 1992. Unless otherwise indicated in the discussions in these statements, the term "Company" will refer to the operations of COMNET and its subsidiaries.

2. Research and development expense, before the capitalization of computer software development costs, amounted to approximately $3,987,000 and $3,093,000 for the nine months ended December 31, 1991 and 1990, respectively.

3. Earnings per share of common stock in the accompanying financial statements have been computed on the net earnings to stockholders, after deducting dividends of Series C Preferred stock, determined on the accrual basis. Earnings per share of common stock have been computed using the weighted average number of common and dilutive common equivalent shares outstanding during the respective periods. Common equivalent shares result from the dilutive effect of stock options, calculated under the treasury stock method.

4. On December 12, 1991, the Accounting Standards Division of the American Institute of Certified Public Accountants issued Statement of Position 91-1 (SOP) on Software Revenue Recognition. The SOP requires the recognition of maintenance and enhancement revenue pro-rata over the life of each contract. Compared with the accounting principles utilized by the Company since its inception, implementation of the SOP will significantly reduce the Company's reported earnings from new maintenance and enhancement contract in the accounting period when such contracts are initiated for new licenses. The earnings reduction in the initial period should be recovered in future periods through the end of the contract. Practically, there should be no earnings impact from such an accounting change associated with the renewal of a previously-existing maintenance and enhancement contract. Implementation of the SOP will not affect the Company's cash flows and is not anticipated to negatively impact the Company's earnings trend.

The Company is required to implement the SOP in the fiscal year beginning April 1, 1992. As the guidelines for implementation of the SOP were released only recently and require significant analysis and restatement of past operations, the Company has not yet determined the effect on revenue and earnings of implementing the SOP.

Part I. Financial Information

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operation

The Company's revenue for the quarter ended December 31, 1991, grew to $8.0 million, an increase of 6% over the $7.5 million for the comparable period the prior year. Revenue from the Company's Group 1 Software subsidiary was $7.4 million for the current quarter, an increase of 4% from $7.2 million the previous year. Group 1 Software continued to record increases in software license fees and related activities, increasing 13% over the same period the prior year. The revenue growth reflects the results of an increased direct sales force and the expanded product offerings on midrange and multi-vendor computer platforms.

Revenue from the Company's other business areas for the quarter ended December 31, 1991 was $.6 million as compared with $.3 million in the same quarter the prior year. COM-MED Systems' sales rose significantly over the same period in the prior year. The current year's increase was attributable to COM-MED's continued penetration into the long-term health care market with both software and professional services. AIM boosted its revenues over the same quarter last year by focusing more directly on its core direct marketing business.

For the nine months ended December 31, 1991, the Company's revenue was $23 million, an increase of 19% over the $19.4 million reported for the comparable period the prior year. Nine month revenue from Group 1 Software was $20.8 million, an increase of 18% over the previous year. Revenues from the other business areas of the Company was $2.2 million as compared with $1.8 million in the nine month period of the prior year.

During the quarter ended December 31, 1991, total operating expenses of $7.1 million amounted to 89% of revenue, as compared with $6.6 million or 88% of revenue during the comparable period of the prior year. For the nine month period ended December 31, 1991 the Company's total operating expenses were $20.4 million or 89% of revenue compared with $17.3 million or 90% of revenue in the prior year.

The current quarter's research, development and support expenses were $2.8 million or 36% of revenue, as compared with $2.3 million or 30% for the prior year. For the nine months ended December 31, 1991 these expenses totalled $8.2 million or 36% of revenue as compared with 32% the prior year. Group 1 Software's research, development and support expenses were $2.2 million in the third quarter of FY92 or 30% of its revenue versus 25% the prior year. This year's higher level of expense was principally due to increased amortization of software development costs related to new software releases, increased direct fulfillment costs associated with the increase in sales orders, as well as increased customer service and product maintenance expenses. AIM's cost of sales was approximately the same as the prior year's third quarter. The research, development and support expenses for COM-MED increased commensurate with the increase in business activity.

Group 1's capitalized software development costs for the quarter and the nine months ended December 30, 1991 were $1 million and $2.3 million, respectively, as compared with $.6 million and $1.7 million capitalized in the comparable periods of 1990. This increase was due to the on-going development effort associated with the Code-1 Plus software system for mainframe computer platforms announced in the second quarter.

For COM-MED Systems, capitalized software development costs for the quarter and the nine months were $.1 million and $.3 million for both this year and the prior year. The current year expenditures related to the on-going enhancement of the Medical Records package and other new software packages.

The Company's sales and marketing expense for the current quarter was $2.6 million or 32% of revenue versus $2.8 million or 37% of revenue in the prior year's period. Year to date expense of $7.9 million was 34% of revenue versus 36% for the same period of the prior year. Group 1's sales and marketing expense was $2.4 million or 32% of its revenue for the three month period and $7.1 million or 34% of revenue for the nine month period, as compared with $2.6 million and $6.3 million or 36% of revenue for the three and nine month periods the prior year, respectively. Group 1 Software continues to increase staffing and related selling expenses focused on the market opportunities afforded by postal efficiency products. Expenses in the current quarter and nine months are lower as the result of a change in the current year in the sales incentive compensation plan.

COM-MED Systems' sales staffing and related selling expenses were increased to capitalize on the market opportunity associated with the availability of the Medical Records software package. AIM's selling expenses were approximately the same as the prior year.

General and administrative expense was $1.1 million for the third quarter, approximately the same as a year ago. For the nine month period, general and administrative expenses was $2.9 million, a decrease of $192 thousand versus the prior year, reflecting the Company's efforts to control overhead costs.

Provision for doubtful accounts was $606 thousand and $1.4 million for the three and nine month periods ended December 31, 1991 as compared with $402 thousand and $1.0 million for the comparable periods of the prior year. The current year quarter reflects an increase in Group 1's provision for doubtful accounts indicative of general economic conditions and their effect on certain clients.

Net non-operating income or expense was an expense of $97 thousand and $194 thousand for the three month and nine months, respectively, in the current year, as compared with an expense of $42 thousand and income of $192 thousand, for the respective periods the prior year. While in the prior year the Company was receiving interest income on notes receivable, there were no similar amounts in the current year due to forbearance agreements with the debtors. Interest expense also increased in the current year as the result of increases in short term borrowings and equipment financing notes.

For the quarter ended December 31, 1991, the Company's earnings before provision for income taxes were $814 thousand, as compared with $ 825 thousand the prior year. Year to date earnings of $2.3 million were 6% above the prior year.

Net earnings for the three months ended December 31, 1991 totalled $392 thousand, as compared with $361 thousand for the same period the prior year. For the nine months ended December 31, 1991 net earnings were $1.2 million, an increase of 8% over the $1.1 million for the comparable period in the prior year. Both the current quarter and nine month's net earnings benefited from increased Research and Development tax credits.

Liquidity and Capital Resources

The Company had working capital of $10.9 million at December 31, 1991, as compared with $7.6 million at March 31, 1991. The Company's current ratio was 2.4 to 1 at December 31, 1991, compared with 2.0 to 1 at March 31, 1991.

The Company generally provides for its cash requirements through cash funds generated from operations. During the quarter and nine month period ended December 31, 1991, the Company experienced a lengthening of the collection cycle due to general economic conditions and their effect on certain clients as well as specification issues with certain new products, issues that were resolved in the third quarter, or will be resolved in the fourth quarter of fiscal year 1992.

Additionally, the Company's Group 1 Software subsidiary maintains an uncollateralized $5,000,000 line of credit arrangement with Signet Bank/Maryland, a major Mid-Atlantic regional bank, with interest rate charged at the bank's prime rate. The terms of this line of credit allow Group 1 to lend money from this arrangement to COMNET Corporation. At December 31, 1991 and 1990, short-term borrowings were $1.7 million and $1 million respectively under this facility.

Part II. Other Information

Item 2.

On February 11, 1991, the Company issued a Notice of Redemption to the holders of its $1.60 Cumulative Convertible Preferred Stock Series C (the "Series C Preferred"). On that date there were 2,875 share of the Series C Preferred issued and outstanding. The redemption date for the Series C Preferred is March 16, 1992. After the redemption date, holders of the Series C Preferred shall have no rights with respect to such shares, except the right the receive the redemption price and accrued but unpaid dividends, upon surrender on of before March 16, 1994 of the stock certificates representing such shares.

Item 5. Other Information

5 (a). As previously announced and reported to the Securities and Exchange Commission, the Company and Medco Containment Services, Inc. a 19% holder of Company's common stock, ("Medco") executed a Letter of Intent on August 16, 1991. In furtherance of the Letter of Intent, the Company and Medco executed a definitive agreement dated as of January 28, 1992. On February 7, 1992, the Company filed with the Securities and Exchange Commission, a Notice of Change in Majority of Board of Directors in accordance with Section 14(f) of the Securities Exchange Act of 1934 and Rule 14f-1 thereunder. This Notice was mailed on or about February 10, 1992 to the Company's stockholders. The Notice, among other things, describes the transactions set out in the definitive agreement.

The Purchase Agreement provides, on the terms and conditions specified therein, for, among other things, the Company to: (i) reconstitute its Board to consist of nine directors divided into three classes of three directors each with five directors (including Martin J. Wygod as Chairman of the Board) to be designated by Medco; (ii) authorize 6% Convertible Preferred Stock ano issue to Medco 100,000 shares of the 6% Convertible Preferred Stock, for a total cash purchase price of $2,000,000; (iii) issue and aggregate of 47,500 shares of the 6% Convertible Preferred Stock to Messrs. Bowen, Kaplan, Smith, and Spohler in exchange for an aggregate of $950,000 principal amount of the Company's secured promissory notes held by such persons since September 15, 1989; (iv) acknowledge the grant on August 16, 1991 of options to purchase an aggregate of 465,000 shares of Common Stock to the directors who will serve on the reconstituted Board; (v) enter into agreements with (A) each of Messrs. Bowen, Manning, Levenson and Wygod, respectively, providing for the payment of certain fees on acquisitions and dispositions of businesses of the Company or its subsidiaries and (B) Mr. Friedman providing for the payment of certain fees in the event of any disposition, if any, by the Company of its stockholdings in Group 1 Software, Inc., an over 81% owned subsidiary of the Company ("Group 1"), or on the sale by Group 1 of all or certain assets of its assets; (vi) amend and restate its existing employment agreement with Mr. Bowen to provide,

among other things, for an amended bonus formula with respect to disposition, if any, of the Company's stockholdings in Group 1, and eliminate the payment of bonuses with respect to businesses hereafter acquired by the Company; and cause Group 1 to amend and restate its existing employment agreement with Mr. Bowen to provide, among other things, for an amended salary and bonus formula if the Company were to dispose of its interest in Group 1; (vii) adopt an amendment to the Company's Certificate of Incorporation which sets forth the obligations that designees of Medco serving as directors of the Company may have to the Company and Medco (and their respective affiliates) regarding opportunities to acquire new businesses; and (viii) submit for stockholder approval, and use its best efforts to obtain such approval of, amendments to the Company's Certificate of Incorporation to (A) augment the authority of the Board to fix the terms of newly authorized classes or series of preferred stock of the Company, (B) eliminate the restriction on the maximum number of directors of the Company and (C) eliminate a supermajority vote provision relating to transactions with substantial stockholders.

5 (b). As of December 1, 1991, Com-Med Systems entered into an agreement with M.S. Katz & Associates, Inc. ("Katz") whereby Com-Med acquired rights to certain assets of Katz and agrees to employ M.S. Katz to assist Com-Med in the development of a professional services business. The assets acquired and the consideration paid are not significant to the Company.

Item 6 (a).

Exhibit 11 is not necessary since earnings per share can be calculated from the information given.

Item 6 (b).

The Company did not file any reports on Form 8-K during the period ended December 31, 1991.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMNET Corporation

Date: February 14, 1992

Charles A. Crew
Executive Vice President
Chief Financial Officer